Test Bank for Business Strategy and Development CDN 2nd Bissonette

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TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

1) Productivity is extremely important to a country, as it measures its economic prosperity. Canadian businesses are criticized for not spending enough on research and development.
Answer: True False

2) Canada is a member of the G7/G8.
Answer: True False

3) China accounts for the most significant proportion of Canada's external trade.
Answer: True False

4) Wheat, canola, and other agricultural-based products make up one of the classes driving Canada's current trade performance.
Answer: True False

5) Trade with the United States comprises just over 50% of Canada's external trade volume.
Answer: True False

6) Trade with the United States comprises just over 50% of Canada's import volume.
Answer: True False

7) In capitalist countries, the government decides what to produce and how the goods and services will be produced.
Answer: True False

8) Under the basic principle of supply, as the price goes down, manufacturers and suppliers of a product tend to supply less of the product to the market.
Answer: True False

9) Demand refers to the quantity of a good that consumers are willing and able to buy at different prices at a specific time.
Answer: True False

10) Price is the key factor that determines both quantity supplied and quantity demanded.
Answer: True False

11) At the equilibrium price the quantity consumers desire to buy equals the quantity sellers desire to sell.
Answer: True False

12) If the quantity supplied in a market exceeds the quantity demanded, a shortage will exist.
Answer: True False

13) If a shortage exists in a market for a good, the price of that good will tend to fall.
Answer: True False

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14) If we graph the supply and demand curves for a product at a specific time, the point on the graph where the two curves intersect is called the stress point.
Answer: True ✓ False

15) In the long run, the actual market price tends to adjust toward the equilibrium price.
Answer: ✓ True False

16) Countries that rely on a free market system often are plagued by persistent shortages or surpluses of goods and services.
Answer: True ✓ False

17) One of the drawbacks of open markets is the fact that competition in such markets undermines the ability of price to adjust to its equilibrium value in the long run.
Answer: True ✓ False

18) Like most nations, Canada has a mixed economy.
Answer: ✓ True False

19) Most countries throughout the world can be classified as either purely capitalist or purely socialist.
Answer: True ✓ False

20) In a mixed economy, the government's goal is to grow the economy and maintain some measure of social equality.
Answer: ✓ True False

21) Controlled economic systems operate with or experience minimal external trade.
Answer: ✓ True False

22) One of the many roles a government can play in an economy is that of a customer.
Answer: ✓ True False

23) Economic activity = expenditures - savings + investment + credit.
Answer: True ✓ False

24) Inflation refers to a general rise in the prices of goods and services over time.
Answer: ✓ True False

25) Economic expansion occurs when an economy is growing and people are spending more money.
Answer: ✓ True False

26) The standard of living rises because people have less money to spend.
Answer: True ✓ False

27) The total value of a country's output of final goods and services in a given year is known as the nation's gross domestic product (GDP).
Answer: ✓ True False

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28) In 2014, Canada's GDP was about $1.8 trillion.
Answer: True False

29) Any output produced by Canadian firms is included in the value of the Canadian GDP, even if the output was produced in a foreign country.
Answer: True False

30) A recession is often defined as two or more quarters of negative GDP movement.
Answer: True False

31) According to the economic growth cycle, employment contractions typically produce real wage gains.
Answer: True False

32) Gross domestic product is the sum of all goods and services produced in a country during a year.
Answer: True False

33) An increase in the exchange rate value of the dollar causes the dollar price of foreign made goods to decrease.
Answer: True False

34) Efficient currency exchange markets have eliminated countertrade in global business transactions.
Answer: True False

35) Currency fluctuations can be an advantage to firms trading in the global market.
Answer: True False

36) Global trading has been simplified by the introduction of standardized international laws regulating business organizations.
Answer: True False

37) A devaluation of the Canadian dollar would make Canadian goods cheaper to foreign buyers.
Answer: True False

38) Floating exchange rates can have either negative or positive impacts on a company operating in global markets.
Answer: True False

39) Monica notices that just a few big companies produce the vast majority of soft drinks. She would be correct in describing the soft drink industry as an oligopoly.
Answer: True False

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40) Harry Cutter is the owner of Harry's Hairy Business, one of a large number of barbershops that compete against each other in the city where Harry lives. Harry has tried to attract more customers by staying open longer than most barbershops, and by advertising heavily on local radio to convince people that he offers the best haircuts in town. Harry appears to be operating in an oligopolistic market.
Answer: True False

41) A monopoly occurs when there is a single seller for a product or service.
Answer: True False

42) Economists refer to a market in which a few sellers dominate the supply side as monopolistic competition.
Answer: True False

43) Product differentiation is a key to success in monopolistic competition.
Answer: True False

44) In Canada, laws prohibit the formation of most types of monopoly.
Answer: True False

45) Porter's Five Forces does not include the threat of new entrants.
Answer: True False

46) Porter's Five Forces model does not include threat of firm exit.
Answer: True False

47) Porter's Five Forces model includes bargaining power of buyers.
Answer: True False

48) Porter's Five Forces model includes bargaining power of suppliers.
Answer: True False

49) Porter's Five Forces model is used to assess the firm's strategic capabilities.
Answer: True False

50) In addition to analyzing economic data, managers need to assess social, cultural, legal, environmental, and technological trends.
Answer: True False

51) Understanding Canada's economic platform is only important for managers of for-profit organizations.
Answer: True False

52) Understanding Canada's economic platform is not important for managers of not-for-profit organizations.
Answer: True False

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53) Porter's Five Forces model is not designed to help managers understand what is happening at the macro level.

Answer: True ● False

54) PESTEL is a useful tool for understanding what is happening at the macro level.

Answer: ● True False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

55) An oligopoly is a market that is characterized by:

A) a few large sellers who dominate the market supply
B) a large number of large firms producing differentiated products
C) a large number of small firms all producing very similar products
D) several small firms that compete primarily by differentiating their products
E) one firm that totally dominates the supply of the product

Answer: A

56) Economic expansion occurs when:

A) fewer goods and services are produced than consumers demand
B) prices begin to rise and incomes begin to fall
C) a nation's standard of living drops quickly
D) employment levels decline over time
E) an economy is growing and people are spending more money

Answer: E

57) The law of supply and demand refers to the ability of the market, independent of external influences, to determine the:

A) price for which a product or service will be bought and sold
B) amount of product or service that will be bought or sold
C) relative stability of demand for a product or service
D) amount of product or service that will be produced
E) speed at which a product or service will be bought or sold

Answer: A

58) When the supply curve and demand curve for a particular good are on a single graph, the point at which the two curves intersect identifies the:

A) amount of time it takes to bring together the buyers and sellers of the good
B) equilibrium price of the good
C) the point at which the firm earns profit
D) total amount of labour that will be employed in that market
E) total profit earned by producers

Answer: B

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59) A controlled system is characterized by:
A) freedom of choice and freedom of competition
B) an extremely rapid rate of economic growth
C) heavy reliance on free trade
D) reliance on the government to determine what is produced and who gets the output
E) reliance on the forces of supply and demand to determine what is produced
Answer: D

60) The markets for laundry detergents, soft drinks, and automobiles all are dominated by just a few sellers. Economists would classify these markets as examples of:
A) an oligopoly
B) pure competition
C) monopolistic competition
D) perfect competition
E) a monopoly
Answer: A

61) In most large cities there are a large number of bakeries. These bakeries produce similar, but not identical, products. Some bakeries claim to have the best cheesecakes in town, while others brag about their cookies or specialty breads. The bakery market in a large city is an example of:
A) monopolistic competition
B) pure monopoly
C) a monopoly
D) an oligopoly
E) perfect competition
Answer: A

62) Daily changes are influenced by both controllable and non-controllable factors. In many cases, these changes can be the result of broader _____ forces beyond a specific industry.
A) business
B) international
C) macroeconomic
D) national
E) micro-economic
Answer: C

63) Today, the economic systems of most nations could most accurately be classified as:
A) mixed economies
B) command economies
C) pure capitalism
D) pure socialism
E) modified command economies
Answer: A

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64) One of the most-often-used business tools to help assess a market's attractiveness is a business model created by Michael Porter of the Harvard Business School called:
A) macro-economic model
B) five forces model
C) industry competitiveness model
D) industry attractiveness model
E) competition model
Answer: B

65) Canada has a strong natural resource base resulting in our having a _____ when it comes to the commodities and energy market sectors.
A) national advantage
B) comparative advantage
C) comparative improvement
D) competitive advantage
E) national competitive advantage
Answer: B

66) The ability of a country to produce or supply goods or services at a lower cost than other countries or to possess resources or unique services that are unavailable elsewhere is a(n):
A) national competitive advantage
B) comparative advantage
C) national advantage
D) absolute advantage
E) competitive advantage
Answer: B

67) Managers need to understand what the general indicators are saying about the _____ economy and about the _____ relationship between the key variables governing our mixed economic system.
A) future; future
B) current; current
C) past; future
D) current; past
E) past; current
Answer: B

68) Increased unemployment can reduce consumer demand for goods and services, leading to:
A) deflation
B) economic contraction
C) inflation
D) a budget deficit
E) economic expansion
Answer: B

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69) Inflation robs an economy of true growth and _____ negatively impacts the confidence levels of consumers and business operators alike.
A) mentally
B) physically
C) demographically
D) psychologically
E) geographically
Answer: D

70) As managers, we must not only be in tune with the general directions which are occurring, but also with the _____ which will develop as a result of such increased economic activity and interdependency.
A) opportunities and threats
B) threats
C) diseases
D) problems
E) prospects
Answer: A

71) The quantity of a good or service that manufacturers or owners are willing to sell at different prices during a specific time period is known as the:
A) supply of that product.
B) utility of that product.
C) elasticity of that product.
D) economic quantity
E) demand for that product.
Answer: A

72) Which of the following is NOT one of the trends listed in the text that managers will need to assess in order to plan appropriately for their business operations?
A) energy prices
B) small business emphasis
C) geographic clustering
D) sustainability and green initiatives
E) currency exchange rate impact
Answer: A

73) Managers assess the macro level, the political, social, technological, environmental, and legal changes in their environment. This analysis is commonly referred to as a(n) _____ analysis.
A) PESTEL
B) ecological
C) five forces
D) competitive
E) environmental
Answer: A

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74) Which of the following represents the value of one nation's currency relative to the currencies of another country?
A) euro rate
B) standard of living
C) currency rate
D) exchange rate
E) purchasing power percentage
Answer: D

75) When prices are free to adjust over time, the market price of a good tends to:
A) rise above the equilibrium price in the long run
B) fall below the equilibrium price in the long run
C) equal the equilibrium price in the long run
D) have no specific relationship to the equilibrium price
E) adjust to the equilibrium price minus inflation
Answer: C

76) In recent years, productivity in the manufacturing sector of the Canadian economy has been:
A) relatively stable
B) rising
C) rising very rapidly
D) falling very rapidly
E) falling slowly
Answer: B

77) Productivity gains, strong business investment, technological innovation, moderate wage increases, and _____ are all key factors deemed to be critical to keeping Canada's economy competitive.
A) favourable demographic change
B) sovereign debt management
C) legal innovation
D) political stability
E) favourable currency exchange rates
Answer: E

78) Productivity gains, strong business investment, moderate wage increases, favourable current exchange rates, and _____ are all key factors deemed to be critical to keeping Canada's economy competitive.
A) technological innovation
B) environmental stewardship
C) political stability
D) favourable demographic change
E) legal innovation
Answer: A

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79) Economies move and grow as a result of activities of the following:
A) everyone
B) consumers
C) businesses
D) government
E) large businesses
Answer: A

80) The growth of economies depends upon:
A) total market value of the goods and services a nation produces
B) the development stage of the economy and its key GDP drivers
C) its key GDP drivers
D) government spending
E) the development stage of the economy
Answer: B

81) If a shortage exists for a good in a free-market economy, the:
A) government must establish a rationing system to make sure that the good is fairly distributed
B) price of the good will not change
C) government will order suppliers to increase the production of that good
D) price of the good will fall
E) price of the good will rise
Answer: E

82) Just over half of the FDI flowing into Canada comes from:
A) China
B) Japan
C) United States
D) Great Britain
E) Mexico
Answer: C

83) Which of the following is NOT typically included as one of the factors that affects the growth of an economy:
A) savings
B) credit
C) investments
D) expenditures
E) land development
Answer: E

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84) Of the following, which factor is NOT included in the total value of GDP?
A) goods and services which are produced and purchased domestically for consumption
B) goods produced for export purposes
C) investments within the economy
D) business investments in other countries
E) government spending business
Answer: D

85) The presence of competition in free markets:
A) is undesirable because it results in unnecessary duplication of efforts
B) is undesirable, because one big firm can usually produce goods more efficiently than a large number of small firms
C) is rare, since most markets eventually evolve into monopolies
D) is undesirable because it discourages innovation
E) typically results in better quality and lower prices
Answer: E

86) Which of the following countries is NOT currently a member of the G7/G8?
A) Germany
B) Italy
C) China
D) France
E) Great Britain
Answer: C

87) Approximately one-third of the FDI flowing into Canada comes from:
A) Europe
B) United States
C) Japan
D) China
E) Mexico
Answer: A

88) Economic contraction occurs when:
A) inflation decreases
B) jobs increase
C) inflation increases
D) spending increases
E) spending declines
Answer: E

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89) Suppliers need to think about the cost of production versus the revenue which will be received from selling their product, and the change in profit which will be realized at different points on the schedule. This is called the:
A) supply line
B) law of demand
C) law of supply
D) demand curve
E) demand schedule
Answer: C

90) This refers to the point where the quantity supplied equals the quantity demanded, with the price point set.
A) market freedom
B) elastic demand
C) market point
D) supply point
E) equilibrium
Answer: E

91) Bigbux is a major producer of whatsits, but it faces competition in the whatsit market from three other major producers. Together, Bigbux and its three large rivals control almost the entire supply of whatsits. The type of market Bigbux is in is called:
A) oligopoly
B) monopolistic competition
C) pure monopoly
D) duopoly
E) quasi-monopoly
Answer: A

92) Jane's Garden Center exists in a market where there are many sellers, little distinction between products, and no seller is large enough to dictate the price of a product. In what kind of market does Jane's company compete?
A) monopoly
B) pure oligopoly
C) oligopoly
D) perfect competition
E) monopolistic competition
Answer: D

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93) Susan Gilles wants to invest in a Tim Horton's franchise but opts not to once she finds out just how much it costs to buy a franchise. She decides to start her own independent coffee shop. She understands the need to differentiate her business from all the other coffee shops. The type of competition that exists in this industry is:
A) perfect competition
B) pure oligopoly
C) a monopoly
D) an oligopoly
E) monopolistic competition
Answer: E

94) _____ exists when a large number of firms produce goods that are similar but are perceived by buyers as being different.
A) Monopoly
B) Pure competition
C) Monopolistic competition
D) Oligopoly
E) Pure oligopoly
Answer: C

95) A typical demand curve shows that:
A) people tend to buy more of a good when its price increases
B) as supply increases, the amount purchased decreases
C) as people earn more income, they buy more of a good
D) people tend to buy more of a good than they really want
E) people tend to buy more of a good when its price decreases
Answer: E

96) Which of the following is NOT one of the contributing factors impacting Canada's economic development?
A) national and provincial debt levels are within acceptable limits
B) political system is unstable
C) economy contains the essential factors of production
D) sufficient levels of investment
E) required business and economic management systems are in place
Answer: B

97) Why is it important for managers to understand trends which are occurring within the economic dimension of the macro environment?
A) pose opportunities and challenges to the livelihood of businesses
B) help managers have confidence in outlaying investments
C) develop products that customers will want
D) design business strategy
E) help managers to predict future demand
Answer: A

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98) The following contributing factor has NOT helped Canada be seen as a safe and lucrative place to do business:
A) possession of a strong, fair, and equitable legal system
B) national and provincial debt levels are within acceptable limits
C) possession of a strong natural resource base
D) existence of corruption
E) banking system is considered one of the most efficient and techno-savvy in the world
Answer: D

99) A typical supply curve shows a relationship between the:
A) amount of labour a firm hires and the amount of output it can produce
B) amount of land and buildings required for production
C) amount of a good a firm produces and the total profit it earns
D) amount of time required to produce a good and the relevant production costs
E) price of a good and the quantity sellers would be willing to offer for sale
Answer: E

100) Paula, a Canadian businessperson who closely follows international business conditions, recently read a newspaper article predicting that the value of the dollar will soon fall. If this article is correct, Paula should expect:
A) prices of imported goods to rise, but prices of Canadian goods sold overseas to fall
B) prices of imported goods to fall, but prices of Canadian goods sold overseas to rise
C) prices of imported goods to rise, and prices of Canadian goods sold overseas to rise as well
D) prices of imported goods to fall, and prices of Canadian goods sold overseas to fall as well
E) no change to the prices of imports or exports
Answer: A

101) _____ exists when the entire supply of a good is controlled by a single seller.
A) Pure capitalism
B) Oligopoly
C) Pure oligopoly
D) Pure competition
E) Monopoly
Answer: E

102) _____ is/are characterized by a large number of firms selling products that appear to be identical.
A) Oligopoly
B) Command economies
C) Microeconomic competition
D) Monopolistic competition
E) Purely competitive markets
Answer: E

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103) A continuing rise in prices over a period of time is known as:
A) stagflation
B) economic expansion
C) recession
D) economic contraction
E) inflation
Answer: E

104) A typical supply curve shows that an increase in the price of a good will cause the quantity supplied to:
A) decrease
B) inverse fluctuation around its equilibrium value
C) remain constant
D) fluctuate randomly around its equilibrium value
E) increase
Answer: E

105) Hennessy Hardware, a Canadian retailer, buys much of its inventory from Asian countries. Hennessy Hardware would benefit if the value of the dollar _____ relative to the currencies of the countries from which Hennessy imports.
A) rose
B) floated unpredictably
C) fell
D) remained constant
E) fell slowly
Answer: A

106) Inelastic demand results when movement in price:
A) does not result in significant changes in supply
B) does not result in significant changes in demand
C) results in significant changes in demand
D) results in equal movement in demand
E) results in significant changes in supply
Answer: B

107) Elastic demand results when movement in price:
A) does not result in significant changes in demand
B) results in significant changes in demand
C) results in equal movement in demand
D) does not result in significant changes in supply
E) results in significant changes in supply
Answer: B

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108) Which of the following was NOT one of the founding members of the G7/G8?
A) Italy
B) Russia
C) France
D) United States
E) Great Britain
Answer: B

109) The Canadian economic system can be described as a:
A) liberal economy
B) capitalist economy
C) socialist economy
D) communist economy
E) mixed economy
Answer: E

110) Which of the following is NOT an element of the PESTEL model:
A) political
B) socio-cultural
C) percentage change
D) technological
E) legal
Answer: C

111) When geographic clustering occurs at the broader macro level, it can cause:
A) the inability of governments to effectively control economic expansion or contraction
B) the increased cost of developing new products and services
C) the need to import skilled and well-educated workers due to a shortage domestically
D) the ability of governments to effectively control economic expansion or contraction
E) the cost of visiting Canada by residents of the U.S. is now more expensive than before
Answer: A

112) Canada's aging workforce is poised to impact the employment needs of Canada's energy sector, resulting in what?
A) the increased cost of developing new products and services
B) the ability of governments to effectively control economic expansion or contraction
C) the inability of governments to effectively control economic expansion or contraction
D) the need to import skilled and well-educated workers due to a shortage domestically
E) the cost of visiting Canada by residents of the U.S. is now more expensive than before
Answer: D

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113) Who is Canada's most important trading partner, in terms of import volume?
A) United States
B) India
C) China
D) Great Britain
E) France
Answer: A

114) A(n) _____ curve shows the relationship between the price of a good and the quantity of that good people are willing and able to buy in a given time period.
A) utility B) Laffer C) Phillips D) demand E) supply
Answer: D

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

115) Discuss the contributing factors to Canada's Economic Development.
Answer: In assessing Canada, with regards to these factors, it can be quickly determined that Canada is fortunate to possess, within its economic fabric, the elements critical to supporting and growing an economic system. Our political system is stable. Our economy contains the essential factors of production, such as roads, ports, utility systems, educated work force, and technology-based business management systems which are essential to the efficient and effective development and delivery of goods and services throughout our economy. Our national and provincial debt levels are within acceptable limits, with both our federal and provincial governments working to reduce such debt loads (although additional debt has been added due to the financial sector and economic recovery programs put into place in 2008/2009). Our banking system is considered to be one of the most efficient and techno-savvy in the world, and our inflation levels have been well managed in recent years by the monetary policies and actions put in place by our central bank, the Bank of Canada. Our country is considered to possess a strong, fair, and equitable legal system, and the existence of corruption is viewed as being minimal in both our public and private sectors. In addition, our possession of a strong natural resource base results in our having a comparative advantage when it comes to the commodities and energy market sectors.

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116) Discuss the issue of Foreign Direct Investment into Canada as a result of our economic development.

Answer: The end result is that many domestic and foreign companies and investors view Canada as a safe and lucrative place to do business. In 2013, as an example, Foreign Direct Investment (FDI) into Canada topped $ 686 billion, a 9% increase over 2012. Over half of the FDI flowing into Canada comes from USA, although investment and acquisitions from countries other than USA, particularly with respect to corporate acquisitions, continue to rise. Both Europe and Asia/Oceania are also active investors, with Europe representing approximately one-third of the overall inflow of investment. Recent acquisitions by foreign entities of Inco, Falconbridge, Newbridge Networks, and BioChem Pharma are examples of this. Outright acquisitions of Canadian companies are not the only investment road being taken by international-based companies and country-based sovereign wealth funds. Minority interests in Canadian companies, by foreign entities, particularly in the energy and commodity sector, are also becoming more common.

117) Describe and provide an example of inelastic demand.

Answer: A core fundamental of an open, economic environment, the Law of Supply and Demand, refers to the ability of the market, independent of external influences, to determine the price for which a product or service will be bought and sold. Demand reflects the number of purchasers who are willing to pay for a product and/or service at various price points. Demand can be perceived to be elastic or inelastic, depending on the movement in the quantity demanded at the various price points which producers are considering offering a product or service to the marketplace. Inelastic demand results when movement in price does not result in significant changes in demand. As an example, the demand for gasoline changes little, even though the price of gasoline rises. This is due to the need for gasoline by purchasers to operate their vehicles and the lack of substitutes for gasoline in the marketplace. As an example, gasoline prices in Ontario rose from a low of $ 0.96 per litre in 2009 to over $1.30 in 2012 and 2013. Despite this dramatic increase in price, the overall demand for gasoline remained relatively stable during this period (allowing for some seasonal fluctuation).

118) Describe and briefly discuss the allowance for private ownership and entrepreneurship.

Answer: This principle refers to the openness of the market to support, encourage, and promote the concepts of private enterprise, personal ownership, entrepreneurship, and wealth creation. Economies around the world allow individuals and corporations, to a varying degree, these rights. Some economies, such as USA and Canada, fully support these concepts in a climate of risk versus return. Developing economies, such as the People's Republic of China and India, are allowing greater access to these fundamentals, whereas others, such as North Korea, are less willing to provide strong support of these capitalistic principles.

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119) Discuss what type of economic system Canada demonstrates and what this means for government control.

Answer: Canada, like most fully-developed economies, is considered to be a mixed economic system. By this, we mean that our economy allows the law of supply and demand to significantly influence the market. The principles of private ownership, entrepreneurship, and wealth creation, and their corresponding risk and return opportunities are present and supported within our economic fundamentals. Our government, although an active participant in our economy, attempts to manage and influence economic activity through a cooperative/competitive model, participating where and how it feels it is of benefit to the market as a whole. Our government will become more or less engaged when it believes that, in doing so, it would be in the best interest of our nation in order to protect and regulate industries and/or guide economic initiatives. It also manages the economy via its powers of taxation, regulation, national debt targets, provincial transfers, and monetary policy control.

120) Discuss the issues involved in measuring a country's economy.

Answer: Economists track the movement of GDP (upward or downward), over a period of time, to determine whether an economy is growing or contracting. Considering the overall growth in the Canadian economy between 2006 and 2014, you can see overall growth with the exception of the recession year of 2010. However, this growth does not necessarily occur on a linear basis and does vary from year to year, and quarter to quarter.

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121) Discuss the economic contraction cycle.

Answer: In periods of economic contraction, a softening, as an example, of consumer spending will place downward pressure on corporate profits and government tax revenues (see Figure 2.14 for illustration). With this reduction to profits and tax revenue, businesses and government will reduce spending. This, in turn, will reduce investment in economic expansion-based activities. With this reduced spending and lower levels of consumer spending, fewer workers will be needed because the amount of goods and services being produced will be reduced. This will have a negative impact on employment requirements, resulting in an increasing supply of available workers (due to downsizing, retrenchment, and business closings), which, ultimately, will be reflected in higher unemployment rates. With more workers available, the supply of workers will exceed the demand, which will result in a downward pressure on wages and wage increases. This results in less dollars for consumers to spend and, therefore, contributes to a further slowing of economic activity (the cycle continues). A number of analysts and economists view this as what took place in the global economy commencing in the fall of 2008, and peaking in the 4th quarter 2009, and into the 1st half of 2010. This was further accelerated by the financial crisis which was a compounding catalyst to this recessionary period. It should be noted that this recent economic crisis resulted in significant capital infusion by governments and central banks (including the Government of Canada and the Bank of Canada). Much of this infusion was the result of the need to ensure liquidity into the financial services sector, as well as the need to develop mechanisms for job creation. This significant capital infusion should be considered an abnormal response, by governments, to general recessionary periods (not driven by catastrophic events, such as the financial sector meltdown), with this liquidity infusion largely debt-based (money has been borrowed) versus being revenue driven as a result of economic activity.

122) Discuss geographic clustering and its impact on the Canadian economy.

Answer: As already mentioned, the Canadian economy is one which has been transitioning to that predicated on the concept of geographic clustering. Geographic clustering occurs when regional economies develop into what are considered to be distinct from one another and separated by significant enough geographic space where interdependency upon each other is minimized. In essence, a variety of distinct regional economic platforms occurs. Although this occurs frequently at the local level, enough interdependency exists at the regional and national levels to mitigate any negative consequences on the economy. The danger occurs when such distinctness occurs at the broader macro level, resulting in the inability of governments to effectively implement national-based economic management actions to effectively control economic expansion or contraction via monetary policy or inflation control mechanisms. With the current economic distinctness between our western provinces and central and eastern Canada, our management of the economy is being somewhat hampered. Continued emphasis must be placed on the interdependency of the regions to ensure that the negative impact of geographic clustering can be minimized.

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123) Discuss the impact of Branch Market on Canada's economy.

Answer: Although Canada is a $1+ trillion economy (PPP), the overall size of our economy is small when compared to other countries. This includes both fully-developed economies, such as U.S. ($17+ trillion), and developing economies, such as the People's Republic of China ($10+ trillion PPP), and India ($2+ trillion PPP). In addition, with such strong demand for our natural resources, energy, and commodity-based goods and services, many global organizations have looked to actively purchase Canadian-owned companies. In the past decade, the number of Canadian-owned companies purchased by foreign firms has alarmed a number of analysts and government sector managers and elected officials. The acquisition of Inco, by Vale of Brazil (formerly CVRD), and Falconbridge, by Xstrata of Switzerland, in 2006, are just two of many examples of the trend which is occurring within our business sector. For some, the fundamental concern is that Canada, in seeing its major businesses being acquired by foreign entities, is in danger of losing control of its economic base, and runs the risk of simply becoming a branch market economy. The Canadian government has been challenged over the past few years to revamp the Investment Canada Act and include a national security test for assessing the impact of foreign ownership in Canadian corporations as a mechanism for controlling the economic and cultural impact of such acquisitions. This issue resurfaced dramatically in the fall of 2010 when Australian-based BHP Billiton attempted a hostile takeover of Saskatchewan-based Potash Corporation. This deal was blocked by the Canadian government on the grounds that it was not in the interest of Canada to see this Canadian-based organization become owned by a foreign entity. The first quarter of 2011 saw these concerns arise again when the London Stock Exchange (LSE) announced its intention to acquire the Toronto Stock Exchange (TSX) as well as in 2012 and 2013 with discussions associated with potential acquisitions of Rona by Lowes and Blackberry by Lenovo. This proposed acquisition is currently being scrutinized by various government bodies in Canada to determine the impact of allowing such an acquisition to take place. As one can see, the debate associated with foreign ownership is only expected to become louder, and it is anticipated that additional modifications to the Investment Canada Act will occur in the near future.

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124) What is Globalization and what is its impact on the Canadian economy?

Answer: Globalization refers to the growing interconnectivity of the world and the heightened interdependence which we are seeing between its various economic regions. The advent of Facebook and Twitter, as examples, enable us to transmit information to as many as one billion people across the globe with simply the tap of a finger. The internet has enabled the development of business models which possess the ability to reach potential buyers with little to no boundaries or few restrictions. As the global economy becomes more connected, and emerging economies, such as the BRIC countries (Brazil, Russia, India, China) and CIVETS countries (Columbia, Indonesia, Vietnam, Egypt, Turkey, South Africa), continue to develop their domestic and export-based economies, new business opportunities will arise as never before. At the same time, so will increased competitive pressures. Canadian businesses will need to adapt to remain competitive. Adapting means becoming more efficient and effective in our operational processes, improving the productivity of our workforces, reinventing our businesses as global market needs change, and becoming increasingly innovative and entrepreneurial as product and market life cycles become shorter.

125) Briefly describe PESTEL analysis and how it can be used in the current Canadian context.

Answer: In addition to the economic factors discussed above, managers will also assess, at the macro level, the political, social, technological, environmental, and legal changes which are occurring. This analysis is commonly referred to as a PESTEL analysis. Politically, the assessment will be looking for trends in government legislation and/or activity which may signal a change to the management of the economy and, therefore, the equilibrium relationship within the mixed economic system. This could include mild intervention in the form of interest rate adjustments, or more significant intervention, such as direct government investment in particular market segments, or consideration of anti-trust legislation and/or changes to Canada's investment and competition acts, in order to protect Canadian companies or market sectors potentially at risk. Increasing tendencies towards protectionism could also form part of this high-level political assessment. Socially, managers will look for trends which may fundamentally change the way in which consumers want, need, or use products/services, as well as the changing composition of the marketplace. This can include demographic shifts, and cultural shifts, as well as behavioural changes. Managers also need to pay attention to changes occurring in the legal sector and its potential impact on the overall business risk. This can include changes to employment law, product liability risk exposure, contract law, and consumer rights, to name a few. Changes associated with environmental compliance regulations and other environmental sustainability obligations must also be reviewed and brought into the decision-making process. Finally, managers must constantly assess the speed and direction of technology shifts which could potentially render current products, services, and operational processes obsolete. Telecommunications, automation, and e-commerce-based business models are dramatically changing the way in which business is done today, with the rate of change continuing to accelerate as we move forward in the current and upcoming decade.

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126) Contrast monopolistic markets to purely competitive markets and give an example of each.

Answer: Purely competitive markets are markets which are characterized by a number of similar products or services and where no single competitor has a dominant market leader position. A key fundamental characteristic of this market is the absence of differentiation between the products or services being offered. These markets generally are characterized as well as possessing few barriers to new market entrants. If you think back to our discussion in File: Chapter 1, regarding value propositions, purely competitive markets are markets where suppliers of products and services are largely unable to create distinctions between the products and services being offered to the target audience. Commodity-based markets and agricultural markets offer a number of good examples of purely competitive markets. Green peppers are green peppers, corn is corn, onions are onions, etc. In this type of market, the product or service is largely viewed as a commodity, with price being a key component of the overall purchase decision. In contrast to purely competitive markets, monopolistic markets are markets which possess a number of different suppliers of products and services, but the nature of the product and/or service, along with the marketing effort initiated by businesses within the sector, have enabled true differentiation to set in. Products and services are viewed, by customers, as being somewhat different and unique, resulting in a significant shift in the development and marketing of value propositions. The manufacturing of cell phones is a good example of a market which exhibits monopolistic market tendencies. Suppliers, such as Nokia, Emerson, Samsung, Motorola, Apple, RIM, to name a few, all compete for customers on the basis of product differences, value, and overall price/quality perceptions.

127) How do managers sense if the market within which they are operating is changing and what tools are available to assist in the assessment process?

Answer: These are two fundamental questions which keep managers up at night as they seek to maintain the competitiveness of their organizations. One of the most-often-used business tools for this purpose is a business model called Porter's Five Forces, created by Michael Porter of the Harvard Business School. Within this model, Michael Porter suggests that managers and business owners can keep their finger on the pulse of the industry within which they operate by assessing changes within five key areas: the intensity of competitive rivalry; the potential for new entrants into the industry; the probability of new products or services which will act as substitutes to the current products and services being offered; the power which suppliers have over manufacturers of goods and services; and the power of buyers within the industry.

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103) E
104) E
105) A
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107) B
108) B
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110) C
111) A
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114) D
115) In assessing Canada, with regards to these factors, it can be quickly determined that Canada is fortunate to possess, within its economic fabric, the elements critical to supporting and growing an economic system. Our political system is stable. Our economy contains the essential factors of production, such as roads, ports, utility systems, educated work force, and technology-based business management systems which are essential to the efficient and effective development and delivery of goods and services throughout our economy. Our national and provincial debt levels are within acceptable limits, with both our federal and provincial governments working to reduce such debt loads (although additional debt has been added due to the financial sector and economic recovery programs put into place in 2008/2009). Our banking system is considered to be one of the most efficient and techno-savvy in the world, and our inflation levels have been well managed in recent years by the monetary policies and actions put in place by our central bank, the Bank of Canada. Our country is considered to possess a strong, fair, and equitable legal system, and the existence of corruption is viewed as being minimal in both our public and private sectors. In addition, our possession of a strong natural resource base results in our having a comparative advantage when it comes to the commodities and energy market sectors.
116) The end result is that many domestic and foreign companies and investors view Canada as a safe and lucrative place to do business. In 2013, as an example, Foreign Direct Investment (FDI) into Canada topped $ 686 billion, a 9% increase over 2012. Over half of the FDI flowing into Canada comes from USA, although investment and acquisitions from countries other than USA, particularly with respect to corporate acquisitions, continue to rise. Both Europe and Asia/Oceania are also active investors, with Europe representing approximately one-third of the overall inflow of investment. Recent acquisitions by foreign entities of Inco, Falconbridge, Newbridge Networks, and BioChem Pharma are examples of this. Outright acquisitions of Canadian companies are not the only investment road being taken by international-based companies and country-based sovereign wealth funds. Minority interests in Canadian companies, by foreign entities, particularly in the energy and commodity sector, are also becoming more common.

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117) A core fundamental of an open, economic environment, the Law of Supply and Demand, refers to the ability of the market, independent of external influences, to determine the price for which a product or service will be bought and sold. Demand reflects the number of purchasers who are willing to pay for a product and/or service at various price points. Demand can be perceived to be elastic or inelastic, depending on the movement in the quantity demanded at the various price points which producers are considering offering a product or service to the marketplace. Inelastic demand results when movement in price does not result in significant changes in demand. As an example, the demand for gasoline changes little, even though the price of gasoline rises. This is due to the need for gasoline by purchasers to operate their vehicles and the lack of substitutes for gasoline in the marketplace. As an example, gasoline prices in Ontario rose from a low of $ 0.96 per litre in 2009 to over $1.30 in 2012 and 2013. Despite this dramatic increase in price, the overall demand for gasoline remained relatively stable during this period (allowing for some seasonal fluctuation).

118) This principle refers to the openness of the market to support, encourage, and promote the concepts of private enterprise, personal ownership, entrepreneurship, and wealth creation. Economies around the world allow individuals and corporations, to a varying degree, these rights. Some economies, such as USA and Canada, fully support these concepts in a climate of risk versus return. Developing economies, such as the People's Republic of China and India, are allowing greater access to these fundamentals, whereas others, such as North Korea, are less willing to provide strong support of these capitalistic principles.

119) Canada, like most fully-developed economies, is considered to be a mixed economic system. By this, we mean that our economy allows the law of supply and demand to significantly influence the market. The principles of private ownership, entrepreneurship, and wealth creation, and their corresponding risk and return opportunities are present and supported within our economic fundamentals. Our government, although an active participant in our economy, attempts to manage and influence economic activity through a cooperative/competitive model, participating where and how it feels it is of benefit to the market as a whole. Our government will become more or less engaged when it believes that, in doing so, it would be in the best interest of our nation in order to protect and regulate industries and/or guide economic initiatives. It also manages the economy via its powers of taxation, regulation, national debt targets, provincial transfers, and monetary policy control.

120) Economists track the movement of GDP (upward or downward), over a period of time, to determine whether an economy is growing or contracting. Considering the overall growth in the Canadian economy between 2006 and 2014, you can see overall growth with the exception of the recession year of 2010. However, this growth does not necessarily occur on a linear basis and does vary from year to year, and quarter to quarter.

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121) In periods of economic contraction, a softening, as an example, of consumer spending will place downward pressure on corporate profits and government tax revenues (see Figure 2.14 for illustration). With this reduction to profits and tax revenue, businesses and government will reduce spending. This, in turn, will reduce investment in economic expansion-based activities. With this reduced spending and lower levels of consumer spending, fewer workers will be needed because the amount of goods and services being produced will be reduced. This will have a negative impact on employment requirements, resulting in an increasing supply of available workers (due to downsizing, retrenchment, and business closings), which, ultimately, will be reflected in higher unemployment rates. With more workers available, the supply of workers will exceed the demand, which will result in a downward pressure on wages and wage increases. This results in less dollars for consumers to spend and, therefore, contributes to a further slowing of economic activity (the cycle continues). A number of analysts and economists view this as what took place in the global economy commencing in the fall of 2008, and peaking in the 4th quarter 2009, and into the 1st half of 2010. This was further accelerated by the financial crisis which was a compounding catalyst to this recessionary period. It should be noted that this recent economic crisis resulted in significant capital infusion by governments and central banks (including the Government of Canada and the Bank of Canada). Much of this infusion was the result of the need to ensure liquidity into the financial services sector, as well as the need to develop mechanisms for job creation. This significant capital infusion should be considered an abnormal response, by governments, to general recessionary periods (not driven by catastrophic events, such as the financial sector meltdown), with this liquidity infusion largely debt-based (money has been borrowed) versus being revenue driven as a result of economic activity.

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